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Argyll
Resources
Ltd.

1979 Annual Report

Report to the Shareholders

Argyll Resources Ltd. has successfully completed its first year of operations. During the year the Company acquired RL Resources Ltd. an Alberta company holding varying interests in thirty three gas wells and six oil wells, and a position in the United States through the purchase of Patco Inc. of Houston, which company holds varying interests in ten producing wells. These acquisitions together with our own exploration program have provided the Company with proven and probable net reserves of 120,000 barrels of oil and 7.7 billion cubic feet of natural gas, and interests in 110,000 acres of petroleum and natural gas leases. The Company completed in May 1979 an offering of common shares for $1,160,000 and subsequent to year-end, negotiated a private placement of common stock providing an additional $600,000 in equity funds. Financial results for the first year of operations reflect sales of oil and gas and other revenue of $287,000 and net earnings of $6,600.

During 1979 and to the date of this report, the Company has completed fourteen wells in its Canadian exploration and development program while abandoning only three wells. These completed wells will significantly add to increased revenue in 1980 which is projected at $550,000.

The Company during 1979 and early 1980, participated in the completion of seven wells in the U.S. through its wholly owned subsidiary Patco Inc. We are receiving the equivalent of $48.00 Canadian per barrel for oil without taking into account the windfall profits tax while in Canada the current price of oil is $14.75 per barrel. In light of higher prices received in the United States and the availability of acreage the Company plans to participate with third parties in the retention of qualified technical people to search out prospective exploration lands and prospects during 1980. In Canada the Company will continue to develop its producing properties by drilling to protect expiring leases, sustain pipeline deliverabilities and prevent drainage and, at the same time, pursue an active program of participation in exploratory prospects.

To implement this program the Company has an exploration oriented staff with many years of experience in the main producing areas of Canada. It is anticipated that additional technical staff will be retained during the coming year to further increase our potential for developing significant reserves.

Argyll is on the threshold of significant growth; we are confident that this growth can be attained by the efforts of the Directors and by the continued valuable support of the members of the staff.

Submitted on Behalf of the Board.

Derek S. Jones.

Derek S. Jones,
President.
April 23, 1980.

Exploration, Development & Production

Argyll in 1979, participated in 26 drilling ventures of which 19 were successful in finding oil and gas, 6 were dry and abandoned, and one was drilling at year end. This results in a 76% success ratio for the year and proves up additional reserves of 1.75 BCF of gas and 75,000 barrels of oil. Most of these reserves offer immediate cash flow and are in addition to reserves added by corporate acquisition. Exploration has concentrated on relatively low risk plays offering immediate cash flow opportunities. Drilling has centered largely in Western Canada although Argyll, through it's subsidiary Patco, participated in 10 wells in the United States.

Success in several of the 1979 projects has indicated reserves requiring additional 1980 drilling on lands under Argyll's control. In certain cases this drilling has been conducted prior to time of writing and has been successful.

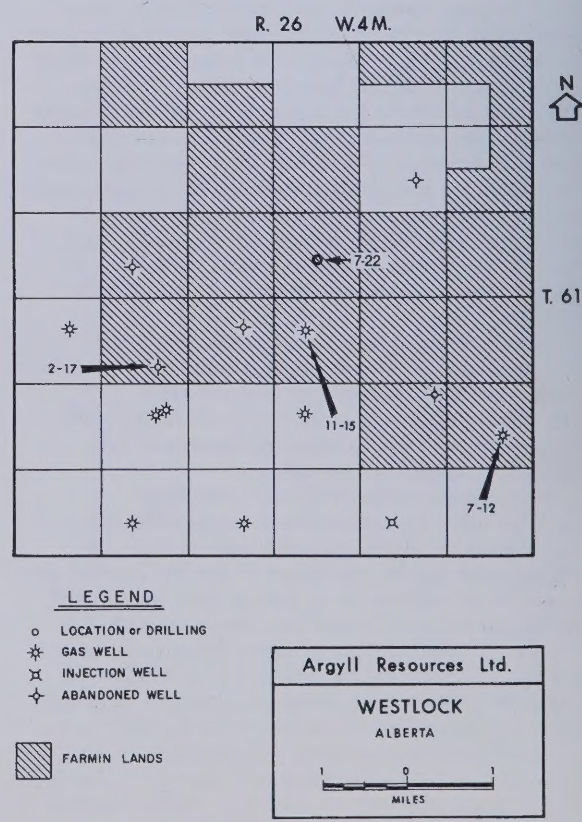
In 1980 the Company will continue to aggressively explore in both Canada and the United States. Company generated prospects are expected to predominate enabling the Company to acquire partners and remain in a carried position in the risk portion of exploration.

WESTLOCK

The Westlock acreage lies 50 miles north of Edmonton and just north of the prolific Westlock gas field. In fulfilment of farm-out requirements the Company, with partners, drilled two gas wells and one dry hole on this block of 11,200 acres. Argyll's interest is 20% in this prospect.

One of the successful wells, Merland Westlock 11-15-61-26 W4 encountered gas in the Colony Sand and is now tied in and producing greater than 500 mcf/d. The second success, Merland Westlock 7-12-61-26 W4, is a shut-in Viking gas well.

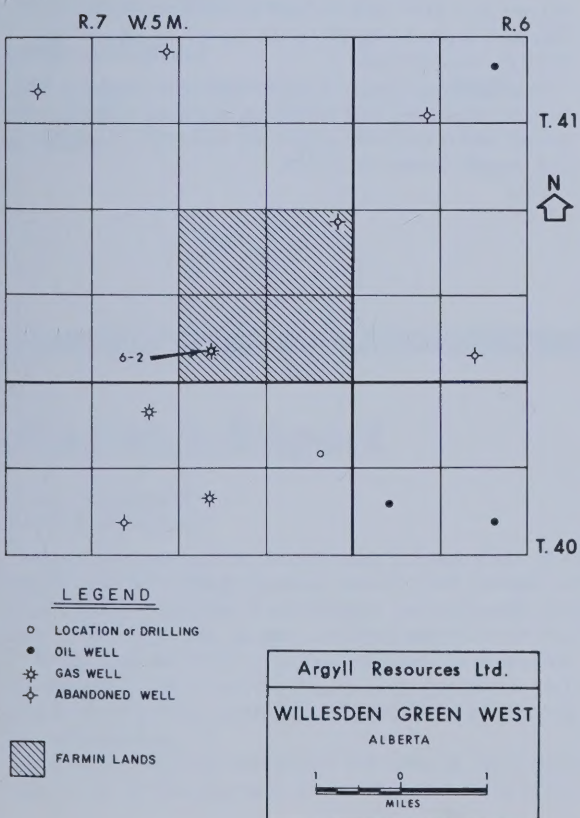
Argyll now has committed to drill 7-22-61-26 W4 as part of a continuing option agreement.

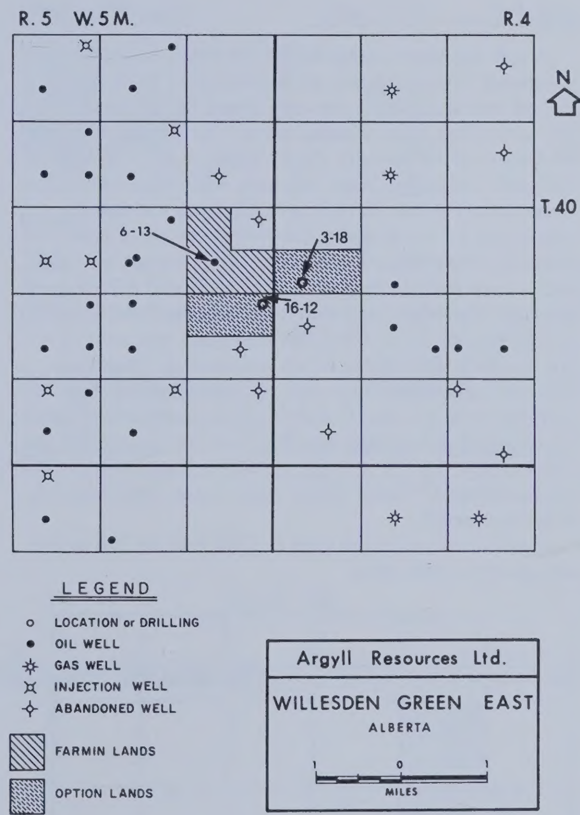


WILLESDEN GREEN WEST

The Company entered into an agreement on 2560 acres in West Central Alberta and drilled the 8700′ test Argyll et al WillGr. 6-2-41-7 W5. Thick gas bearing sands in the Basal Quartz and Glauconitic were encountered and completion testing is currently in progress.

Argyll's interest is 20% in the well and 10% in the surrounding lands. The well was drilled at no cost to Argyll.





WILLESDEN GREEN EAST

In 1979 the Company entered into an agreement on 1120 acres in the Willesden Green East Area requiring the drilling of a 7000′ Viking Test. Subsequent to year-end the 6-13 well was drilled at no cost to Argyll and completed as a flowing Viking oilwell with a potential of 140 barrels of oil per day and as a Cardium oilwell with a potential yet to be determined. As many as 6 additional wells may be drilled with the initial two development wells being located in 16-12-40-5 W5 and 3-18-40-4 W5.

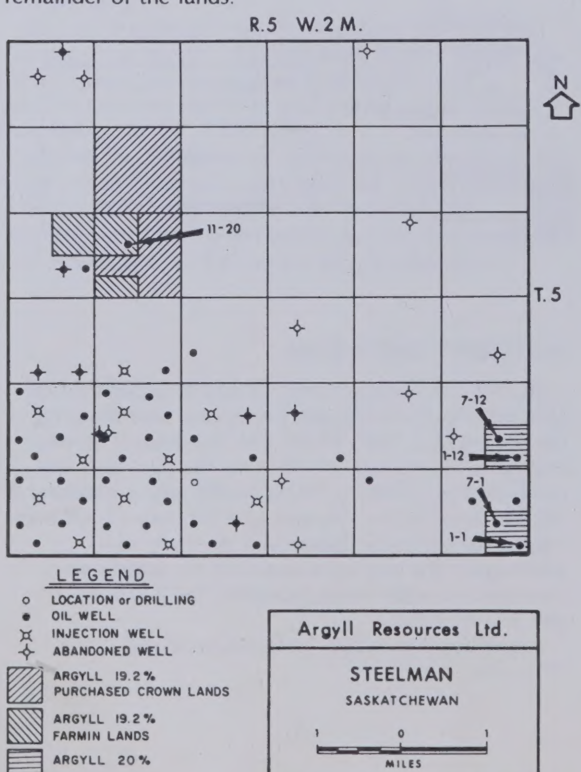
Argyll's interest is 20% before payout and 10% after.

STEELMAN

Argyll has been active in the Steelman area of southeast Saskatchewan. In December of 1979 Argyll, drilled and completed the well Argyll Steelman 1-1-5-5 W2 which has been flowing oil at rates between 40 and 60 barrels of oil per day. Argyll holds a 20% interest in this well. Following year-end three additional wells have been drilled in the immediate vicinity of the initial discovery. Of these wells, the Company has a 20% interest in one oilwell producing at 50 barrels per day, and in one well waiting on completion and a 10% interest in another well which requires remedial work.

Subsequent to year-end the Company was part of a group which drilled a wildcat test north of Steelman. This well, Cherokee Steelman 11-20-5-5 W2 has been completed as an oilwell and 1040 acres of offsetting Crown lands have been purchased at the Saskatchewan Government April 8 sale for $730,000. Results of the well are confidential since further open crown lands remain to be evaluated.

Argyll's interest in the well is 32% and 19.2% in the remainder of the lands.



United States

Highlighting our United States exploration is the drilling of the West Richfield prospect in Kansas which is currently producing at a rate of 2.4 million cubic feet of gas per day. Gas from this well is presently being sold at $2.30 (U.S.) per thousand cubic feet. The Company's interest is 6.25%.

Argyll also has a 6.25% interest in the Carroll #1 well in Jackson County of Texas which was completed for a calculated absolute open flow of 30 million cubic feet of gas per day.

In Gonzales County, Texas the Company has a 12½% interest in a 1979 Austin Chalk completion, Parker #2. This well is producing 80 to 100 barrels of oil per day from the Austin Chalk.

In Oklahoma the Company participated in the drilling of Kinnamon #A-1 well which has been completed as an oilwell and is currently producing 18 barrels of oil per day. Argyll's interest is 2.34%.

Reserves and Land Holdings

RESERVES

The net proven and probable reserves of the Company at December 31, 1979 as estimated by the Company or independent reservoir engineers were 7.7 billion cubic feet of gas and 120,000 barrels of oil.

LAND HOLDINGS

At December 31, 1979 the Company's holdings of petroleum and natural gas leases and rights were as follows:

Working Interests	Gross Acres	Net Acres
Canada		
Alberta	96,944	9,531
British Columbia	4,085	351
Saskatchewan	320	56
	101,399	9,938
U.S.A.		
Ohio	310	310
Texas	2,051	902
Oklahoma - Kansas	4,343	271
	6,704	1,483
Total Working Interests	108,103	11,421
Royalty Interests		
Saskatchewan	54,240 GORR varies from 0.75 to 1.5%	

Auditor's Report

To the Shareholders
Argyll Resources Ltd.

We have examined the consolidated balance sheet of Argyll Resources Ltd. as at December 31, 1979 and the statements of earnings, retained earnings and changes in financial position for the ten months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and changes in its financial position for the ten months then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

The figures for the year ended February 28, 1979, included for comparative purposes, are based on the financial statements of that year which were reported on by other chartered accountants.

Calgary, Canada
March 7, 1980

Collins Barrow
CHARTERED ACCOUNTANTS

Argyll Resources Ltd.
(Formerly West Provident Resources Ltd.)
(Incorporated under the laws of British Columbia)

Consolidated Balance Sheet
December 31, 1979

	December 31, 1979	**February 28, 1979**
ASSETS		
CURRENT ASSETS		
Cash and deposit receipts	**$ 758,181**	$101,962
Accounts receivable	**744,546**	—
Total current assets	**1,502,727**	101,962
AGREEMENT RECEIVABLE (NOTE 4)	**300,000**	—
PROPERTY AND EQUIPMENT, AT COST (NOTE 5)	**4,328,703**	43,065
OTHER ASSETS	**18,055**	460
	$6,149,485	$145,487
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 6)	**$ 467,864**	$ —
Accounts payable and accrued liabilities	**1,549,349**	125
Agreement payable (note 7)	**91,185**	—
Total current liabilities	**$2,108,398**	$ 125
LONG-TERM DEBT (NOTE 8)	**267,500**	—
DEFERRED INCOME TAXES	**$ 3,800**	$ —
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (NOTE 9)		
Authorized		
10,000,000 shares without nominal or par value		
Issued		
3,288,251 shares (February 28, 1979 – 1,250,001 shares)	3,769,763	151,938
RETAINED EARNINGS (deficit)	24	(6,576)
	3,769,787	145,362
	$6,149,485	$145,487

Approved on behalf of the Board,

Derek S. Jones Director

Director

The accompanying notes are an intergral part of these financial statements

Consolidated Statement of Earnings
Ten Months Ended December 31, 1979

REVENUE	
Oil and gas sales	$226,825
Interest and other	60,296
	287,121
EXPENSES	
Production	94,713
General and administrative	107,405
Interest on long-term debt	8,100
Depletion	57,200
Depreciation	9,725
	277,143
EARNINGS BEFORE THE FOLLOWING	9,978
MINING PROPERTIES SURRENDERED	(19,498)
FOREIGN EXCHANGE GAIN	16,123
	(3,375)
EARNINGS BEFORE INCOME TAXES	6,603
INCOME TAXES	
Deferred	3,800
Alberta royalty tax credit	(3,797)
	3
NET EARNINGS	$ 6,600
EARNINGS PER SHARE	$ 0.002

Consolidated Statement of Retained Earnings
Ten Months Ended December 31, 1979

DEFICIT, BEGINNING OF PERIOD	($ 6,576)
NET EARNINGS	6,600
RETAINED EARNINGS, END OF PERIOD	$ 24

The accompanying notes are an intergral part of these financial statements

Consolidated Statement of Changes in Financial Position

Ten Months Ended December 31, 1979

	Ten Months Ended December 31, 1979	Year Ended February 28, 1979
WORKING CAPITAL WAS PROVIDED FROM:		
Operations	$ 80,700	$ —
Issue of common shares	3,617,825	151,938
Increase in long-term agreement payable	$ 172,500	—
	3,871,025	151,938
WORKING CAPITAL WAS USED FOR:		
Acquisition of subsidiaries		
Acquisition of Patco, Inc.	880,000	—
Acquisition of R L Resources Ltd.	1,180,325	—
	2,060,325	—
Add: Working capital deficiency acquired	943,072	—
	3,003,397	—
Acquisition of property and equipment	1,267,636	49,641
Additions to other assets	7,500	460
Increase in agreement receivable	300,000	—
	4,578,533	50,101
INCREASE (DECREASE) IN WORKING CAPITAL	(707,508)	101,837
WORKING CAPITAL, BEGINNING OF PERIOD	101,837	—
WORKING CAPITAL (DEFICIENCY), END OF PERIOD	$ (605,671)	$101,837

The accompanying notes are an intergral part of these financial statements

Notes to the Consolidated Financial Statements

December 31, 1979

1. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the company, the accounts of its wholly-owned subsidiaries, Patco, Inc. and R L Resources Ltd.

(b) Exploration and development costs

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition cost, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells together with overhead and interest directly related to exploration and development activities. Proceeds on minor property sales are credited to the net book value of the property and equipment. Gains or losses on major property sales are normally recognized in the statement of earnings.

Exploration and development costs are allocated to one cost centre, namely, North America (Canada and the United States).

Costs capitalized in the cost centre are depleted on the composite unit-of-production method based on estimated proven oil and gas reserves as determined by independent and company engineers.

(c) Mining properties

The company follows the practice of capitalizing all acquisition and exploration costs relating to mining properties on a prospect area basis. If a prospect area is subsequently abandoned, all capitalized costs relating to the area are charged to earnings.

(d) Depreciation

Depreciation of lease and well equipment is provided for on the composite unit-of-production method. Depreciation of sundry equipment is computed on the declining balance method at 20% per annum.

(e) Translation of foreign currencies

The accounts of the foreign subsidiaries have been translated to Canadian dollars on the following basis: Current assets and current liabilities at the rate of exchange in effect at the end of the period. Other assets and liabilities at the rate of exchange in effect at the date of settlement. Revenue and expense items are translated using average rates of exchange prevailing throughout the period.

(f) Joint venture accounting

Substantially all of the exploration and production activities of the company are conducted jointly with others and accordingly these financial statements reflect only the company's proportionate interest in such activities.

(g) Earnings per share

Earnings per share is based on the weighted average number of common shares outstanding during the period.

The exercise of stock options and the issuing of the additional 172,500 shares, as mentioned in note 9, would not be dilutive.

2. Acquisition of subsidiaries

(a) By agreement dated February 20, 1979, the company acquired all of the outstanding shares of Patco, Inc. in exchange for 800,000 shares of the company valued at $880,000 (note 9). In addition, the company agreed to (i) advance approximately $335,000 to Patco, Inc. to repay the shareholders' loan;
(ii) issue to the vendors 200,000 share purchase warrants granting the holders the rights to purchase 200,000 shares of the company at $1.75 exercisable on or before December 31, 1979 (note 9).

The company's consolidated earnings include the earnings of the above subsidiary since the date of acquisition. Details of the acquisition, which have been accounted for by the purchase method are as follows:

Working capital deficiency	$(683,416)
Book value of property and equipment	759,977
	76,561
Excess of assigned value over book value of acquired net assets	803,439
Total cost of investment	$880,000

The excess of assigned value over book value has been allocated to property and equipment and additional depletion has been provided accordingly.

(b) By agreement dated July 4, 1979, the company acquired all of the outstanding shares of R L Resources Ltd. in exchange for 380,750 shares of the company valued at $1,180,325 (note 9).

The company's consolidated earnings include the earnings of the above subsidiary since July 1, 1979. Details of the acquisition, which have been accounted for by the purchase method, are as follows:

Working capital deficiency	$ (259,656)
Book value of property and equipment	1,637,706
	1,378,050
Excess of book value of acquired net assets over assigned value	(197,725)
Total cost of investment	$1,180,325

The excess of book value of acquired net assets over assigned value has been eliminated against property and equipment and depletion has been adjusted accordingly.

3. Statement of earnings and retained earnings

No comparative statements of earnings and retained earnings for the year ended February 28, 1979 are presented as the company was in the formative stage whereby all costs and expenditures were capitalized for that period. Mining properties in the amount of $6,576 were surrendered in the year ended February 28, 1979 and charged directly to retained earnings.

4. Agreement receivable

The agreement receivable bears interest at a Canadian bank's minimum lending rate and is repayable by the borrower in full on or before September 1, 1981.

The agreement receivable is evidenced by a demand promissory note and secured by an assignment of production proceeds from certain oil and gas properties.

5. Property and equipment

Property and equipment consists of the following:

	Cost	Accumulated Depletion and Depreciation	December 31, 1979 Net	February 28, 1979 Net
Petroleum and natural gas leases and rights and exploration and development thereon	$4,093,138	$57,200	$4,035,938	$34,024
Lease and well equipment	230,469	3,200	227,269	-
Other	71,037	5,541	65,496	9,041
	$4,394,644	$65,941	$4,328,703	$43,065

6. Bank indebtedness

Bank indebtedness consists of the following:

Operating bank loans	$ 95,000
Other bank loan	372,864
	$467,864

The other bank loan is repayable on demand and is secured by an assignment of a deposit receipt in the amount of $371,700.

7. Agreement payable

The agreement payable bears interest at 3% above a Canadian bank's minimum lending rate and was due on November 15, 1979. After November 15, 1979, the lender has an option to purchase certain oil and gas properties from the company in settlement of the balance outstanding.

As of the balance sheet date, the lender has not exercised the option and it is the intention of the management to settle the balance outstanding by cash.

8. Long-term debt

Long-term debt consists of the following:

Bank production loan	$ 95,000
Agreement payable	172,000
	$267,500

The bank production loan is secured by certain petroleum and natural gas properties and accounts receivable. The loan bears interest at 1½% over the bank's prime lending rate and is repayable out of future production proceeds and accordingly, is not expected to require the use of existing working capital; therefore, no portion of this loan has been reclassified to current liabilities. It is anticipated that the loan will be repaid at approximately $48,000 per year and accordingly will be repaid over the next two years.

The agreement payable is with two holding companies owned by two directors of the company, whereby the company acquired certain gross overriding royalty interest in consideration for 230,000 shares of the company valued at $1 each. As of the end of the period, 57,500 shares were issued. The remaining 172,500 shares will be issued upon the occurrences of certain events.

9. Share capital

During the period, the following shares were issued:

	Number of Shares	Stated Value
Balance, February 28, 1979	1,250,001	$ 151,938
Acquisition of Patco, Inc. (note 2)	800,000	880,000
Exercise of share purchase warrants (note 2)	200,000	350,000
Acquisition of R L Resources Ltd. (note 2)	380,750	1,180,325
Acquisition of gross overriding royalty interest	57,500	57,500
Cash	600,000	1,150,000
Balance, December 31, 1979	3,288,251	$3,769,763

The company has reserved 172,500 shares for issue in respect of a purchase of an overriding royalty interest (see note 8). The shares are valued at $1 each and will be issued upon the occurrences of certain events.

Shares of the company are offered to key employees and directors under a stock option plan. The options are exercisable one-third annually on a cumulative basis. Details of options outstanding are as follows:

Date Granted	Exercise Date	Price	Options Outstanding
May 14, 1979	on or before May 14, 1980	$ 2.25	50,000
May 14, 1979	on or before May 14, 1981	2.50	50,000
May 14, 1979	on or before May 14, 1982	2.75	50,000
			150,000

10. Change of fiscal year end

The company has changed its fiscal year end from February 28 to December 31, effective December 31, 1979.

11. Remuneration of directors and officers

Directors and senior officers of the company (including the five highest paid employees) received remuneration directly or indirectly amounting to $46,286 for the ten months ended December 31, 1979.

Corporate Information

Directors and Officers:

Derek S. Jones - President,
Calgary, Alberta.

Victor W. Sutherland - Vice-President
Calgary, Alberta.

John McAskill - Secretary,
Vancouver, British Columbia.

Offices:

1760 - 717 - 7th Avenue, S.W.
Calgary, Alberta. T2P 0Z3.
(403) 269-5928

Subsidiary Companies:

Patco Inc.,

RL Resources Ltd.,

Bankers:

The Royal Bank of Canada

Fondren Southwest Bank, Texas

Auditors:

Collins Barrow

Solicitors:

DuMoulin, Black, Brazier & Hall,
Vancouver, British Columbia.

Transfer Agent:

Yorkshire Trust Company

Stock Exchange Listing:

Vancouver Stock Exchange

Trading Symbol: "AYR"